

MEMORANDUM

DATE ISSUED: June 9, 2004 REPORT NO. CCDC-04-21

ATTENTION: Chair and Members of the Redevelopment Agency
Docket of June 15, 2004

SUBJECT: Centre City Redevelopment Project Tax Allocation Bonds,
Series 2004A, 2004B, 2004C and 2004D

REFERENCE: Fiscal Year 2005 Budget ("FY05 Budget"), Ballpark MOU / Fourth
Implementation Agreement and Low and Moderate Income
Housing Fund Financing for the Notice of Funding Availability
("NOFA")

*(See Separate Item on City Council Agenda Authorizing the Agency
to Issue Centre City Redevelopment Project Tax Allocation Bonds)*

STAFF CONTACT: Frank Alessi, Vice President and Chief Financial Officer

SUMMARY:

Issue - Should the Redevelopment Agency ("Agency") authorize the issuance of Centre City Redevelopment Project Subordinate Tax Allocation Bonds, Series 2004A in an amount not to exceed \$108 million, Series 2004B ("Taxable") in amount not to exceed \$12 million; Tax Allocation Housing Bonds, Series 2004C and 2004D ("Taxable") in an amount not to exceed \$40 million ("TA Bonds").

Staff Recommendation - That the Redevelopment Agency ("Agency") authorize the issuance of Centre City Redevelopment Project Subordinate Tax Allocation Bonds, Series 2004A in an amount not to exceed \$108 million, Series 2004B ("Taxable") in amount not to exceed \$12 million; Tax Allocation Housing Bonds, Series 2004C and 2004D ("Taxable") in an amount not to exceed \$40 million ("TA Bonds").

Centre City Development Corporation ("CCDC") Recommendation - The Budget/Finance Committee approved the proposed sale of bonds at its May 10, 2004 meeting. The full CCDC Board is scheduled to hear this item at its May 26, 2004 meeting.

Other Recommendations - None.

Fiscal Impact - Utilization of 80% tax increment revenue for debt service of approximately \$8.9 million annually offset by the elimination of \$3.7 million during the next twelve years relating to the refunding. The remaining years through 2029 will utilize approximately a \$6.2 million annually. In addition, approximately \$3.2 million annually from the 20% set-aside funds will be utilized for a period of 25 years.

BACKGROUND:

The Agency is authorized to issue bonds for the purpose of financing the costs of a redevelopment project pursuant to Part I (commencing with Section 33000) of Division 24 of the California Health and Safety Code of the State of California.

In August 2003, the City Council and the Redevelopment Agency approved the Fourth Ballpark and Redevelopment Project Implementation Agreement which provided for a reimbursement payment to the Padres for the larger Park at the Park and for the Agency to use its good faith efforts to accelerate its obligation to capitalize property and possessory interest taxes on the Ballpark through the sale of tax allocation bonds.

In addition, the proposed FY05 Budget includes various public improvements for the downtown area including design costs associated with the North Embarcadero, development of a Pedestrian Bridge, at grade track improvements at Park Boulevard and Harbor Drive, a provision to fund a portion of the Downtown Main Library, street lights and other public improvements. To facilitate a portion of the funding for the FY05 Budget, leveraging the increased flow of tax increment is appropriate and needed.

In August 2002, the City Council approved the concept of leveraging the Agency's 20% Low and Moderate Income Housing Funds to create up to \$55 million in affordable housing financing to fund the NOFA. CCDC's commitment is to fund a total \$40 million towards this program. In June 2003, CCDC funded approximately \$7 million of its \$40 million commitment from the Horton Plaza Redevelopment Project. At this time, it is anticipated that an additional \$33 million from the Centre City Redevelopment Project will be provided with the proposed sale of tax allocation bonds.

Also, in 1993, tax allocation bonds were sold in amount of \$54.4 million of which approximately \$33.5 million remain outstanding. Today, with extremely low interest rates, it is economically feasible to refund the outstanding amount of 1993 bonds.

DISCUSSION:

The proposed TA Bonds will consist of three elements:

- The first element will provide funds for the FY05 Budget and the capitalization of possessory and property taxes for the Padres pursuant to the MOU obligations. These components are funded from the Series 2004A bonds which is tax-exempt and secured with the 80% tax increment revenues.
- The second element is a taxable series of bonds (Series 2004B) which will refund a portion of the tax allocation bonds sold in 1993 and are also secured with 80% tax increment revenues.
- The third element is a housing tax allocation bond (Series 2004C and 2004D)

secured from the 20% low and moderate income housing tax increment. These bonds are also taxable as a result of the nature of the use with private development.

Par value of Series 2004A (tax-exempt) and Series 2004B (taxable) is estimated at \$101.2 million and \$10.8 million, respectively, producing net proceeds of \$68.5 million for project activities and providing \$31.9 million of funds required for refunding the Series 1993. Interest rates on the bonds will range from 1.7% to 5.3% on Series 2004A and 4.4% to 5.4% on the Series 2004B. The interest rates above assume the Agency's ability to obtain bond insurance which will provide for a AAA rating.

The Series 2004C and 2004D are estimated to have a par value of \$37.1 million producing net proceeds of \$33 million to fund the commitment of the NOFA for the comprehensive affordable housing strategy. This component of the TA Bonds is anticipated to be taxable and, therefore, will carry higher interest rates ranging from 4.4% to 6.9%.

The following tables reflects a preliminary three-year cash flow of the Centre City Redevelopment Project using tax increment revenue without growth from new development and deducting existing and proposed debt service, illustrating the Agency's ability to pay debt service on the proposed bond issuance.

(In Millions)

| | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> |
|--|----------------|----------------|----------------|
| NON-HOUSING TAX INCREMENT ¹⁾ | \$33.9 | \$34.6 | \$35.4 |
| Less: Existing Debt Service, Tax Sharing and DDA Obligations | 16.0 | 17.4 | 18.8 |
| Proposed Debt Service Series 2004A and 2004B | <u>\$ 8.9</u> | <u>\$ 8.9</u> | <u>\$ 8.9</u> |
| Remaining Balance after Existing and Proposed Debt Service | <u>\$ 9.0</u> | <u>\$ 8.3</u> | <u>\$ 7.7</u> |
| | | | |
| HOUSING TAX INCREMENT ¹⁾ | \$ 8.5 | \$ 8.7 | \$ 8.9 |
| Less: Proposed Debt Service Series 2004C+D | <u>\$ 3.2</u> | <u>\$ 3.2</u> | <u>\$ 3.2</u> |
| Remaining Balance after Proposed Debt Service | <u>\$ 5.3</u> | <u>\$ 5.5</u> | <u>\$ 5.7</u> |

¹⁾ Per Katz Hollis Report dated April 2004. Based on current assessed values and a 2% escalation.

The proposed bond sale requires approval of various documents by CCDC, the Agency and City Council. The actions required include the adoption of resolutions approving the issuance TA Bonds Series 2004 and approval of the following preliminary documents:

1. Preliminary Official Statement - A detailed offering circular informing potential bond purchasers of all relevant information as to the nature of the obligations, the project to be financed, and the security of the bonds for each bond issue.
2. Trust Indentures - Trust Indentures between the Agency and Wells Fargo Bank, N.A., as trustee providing for the terms and conditions of the Centre City Redevelopment Project Subordinate Tax Allocation Bonds, Series 2004A, Tax Allocation Bonds, Series 2004B, and Tax Allocation Housing Bonds, Series 2004C and 2004D.
3. Continuing Disclosure Agreements - Agreements by the Agency for the benefit of the bondholders to disclose certain financial and operating data each year pursuant to Rule 15c2-12(b)(5) of the Securities and Exchange Act for each bond issue.
4. Purchase Contracts - Bond Purchase Agreements between the Agency, the Public Facilities Financing Authority, and Stone & Youngberg and Backstrom McCarley Berry & Co., LLC ("Underwriters") setting forth the terms and conditions in which the bonds will be sold to the Underwriters for each bond issue.

Presently, interest rates are favorable and it recommended that the proposed tax allocation bonds be issued.

The current schedule anticipates this item to be heard by the CCDC Board at its May 26, 2004 meeting, the City Council and Agency at its June 15, 2004 meeting, the Public Facilities Financing Authority in late June, a sale of bonds and a closing in July.